

Volume No. 1—Policies and Procedures	<b>TOPIC NO</b>	<b>30320</b>
Function No. 30000—Capital Asset Accounting	<b>TOPIC</b>	<b>Energy Performance Contracts</b>
Section No. 30300—Asset Classification	<b>DATE</b>	July 2012

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## Overview

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### Introduction

The purpose of this CAPP Topic is to provide guidance for properly recording energy contracts in the Commonwealth's Fixed Asset Accounting and Control System (FAACS) for central FAACS users or in the agency/institution's capital asset system for summary users. Proper asset recording in FAACS provides auditable information for the Comprehensive Annual Financial Report (CAFR) and helps ensure that property, plant, and equipment are acquired, controlled, and disposed of in the best interests of the Commonwealth. State agencies and institutions must have policies and procedures in place to ensure that assets meeting the FAACS reporting criteria are recorded in FAACS or the agency/institution's capital asset system timely and in accordance with Commonwealth policies.

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## Definitions

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### Energy Performance Contracts

Energy performance contracts are defined as financing arrangements approved by the Treasury Board that are used to upgrade existing capital assets to provide greater efficiency in the use of energy or other resources. The actual improvements made under an energy performance contract may affect buildings, infrastructure, equipment or a combination of these capital asset categories.

Energy contracts typically involve a state agency/institution, an outside vendor/contractor, and a lending institution, such as a bank, that provides financing for the energy performance contract project. The lending institution pays the vendor as phases of the energy contract are completed per the terms specified in the energy performance contract agreement. Cost savings resulting from the reduction in energy or resource use provide funding for the debt service payments to the lending institution.

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## Policy

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### General

Energy performance contracts are individual in nature and may contain items that would typically be included in the FAACS Masterfile asset categories of buildings, infrastructure, equipment or construction in progress (CIP) if each individual asset meets the \$5,000 capitalization threshold. Analyzing every item in each energy performance contract requires considerable effort by the agency/institution to research and determine the specific asset categories and amounts that require capitalization. Furthermore, CIP recorded during the construction phase is problematic since many individual items for an energy performance contract do not meet the current \$5,000 capitalization threshold upon completion of the project.

Energy performance contracts contain numerous items that under the existing DOA policy do not require entry into FAACS because each individual “efficiency item” is less than the required \$5,000 capitalization threshold. This may lead to inconsistencies in FAACS and the CAFR as energy performance contracts are often similar in nature to construction or building renovation projects that often include items that are individually less than \$5,000 but part of a larger asset with a cost greater than \$5,000.

### Policy for Capitalizing Energy Performance Contracts

Due to the difficulty in determining the appropriate asset categories and amounts for recording capitalizable assets for energy performance contracts, DOA has established a capitalization policy specifically for Energy Performance Contracts. This policy reduces the amount of agency/institution analysis required and provides a more straight-forward and consistent approach to capitalizing energy performance contract assets.

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## Policy, Continued

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Agencies/institutions must evaluate the nature of the specific energy performance contract to determine whether the purpose and items obtained qualify for capitalization. For instance, if the predominant purpose of the energy performance contract is to replace all existing light bulbs with energy efficient bulbs, no capitalization of assets will occur. If, however, the predominant purpose is to replace the existing HVAC system with an energy efficient system, capitalization may be appropriate.

Once an energy performance contract is identified as capitalizable, the total project should be recorded in the building, infrastructure, or equipment asset category that reflects the predominate characteristic of the energy performance contract expenditures as follows: *(If the agency/institution has entered into an energy performance contract that is predominately equipment in nature, please contact DOA.)*

- During the construction phases of the energy performance contract, evaluate the expenditures to determine whether capitalization appears appropriate. Record the applicable capitalizable expenditures of the energy performance contract as Construction in Progress (CIP).
- As identifiable phases of the energy performance contract are completed, reverse the CIP. The total amount recorded in CIP must be reversed from FAACS.

*Note: If the agency/institution determines an item was capitalized as CIP that should have originally been expensed, then ensure the amount reclassified to the building, infrastructure, or equipment asset categories has been reduced by any amount inappropriately recorded as CIP.*

- Record the appropriate amount of the CIP reversal in the building, infrastructure, or equipment asset category depending on the predominate nature of the energy performance contract. The acquisition date of the new asset should be completion date for each phase of the energy contract. (See CAPP Topic No. 30310 for more complete descriptions of the building, infrastructure, and equipment asset categories.)

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## Internal Control

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### General

Agency heads are responsible for maintaining an adequate system of internal controls within the agency/institution. As long as the agency/institution has sufficient internal controls to ensure that agency's/institution's capital assets are safeguarded and capital assets financial balances are fairly presented, the agency/institution will be considered to be in compliance with DOA policy as it applies energy performance contracts.

Agencies/institutions should establish adequate and cost beneficial internal control systems to ensure that:

- Energy performance contracts are approved in advance by the Treasury Board and are used to acquire capital assets for use in furthering the agency's/institution's programs and missions;
  - Energy performance contract assets are capitalized in accordance with the energy performance contract capitalization polices contained in the CAPP topic;
  - Proper stewardship and control over assets is carried out, including periodic inventories;
  - Financial statements reflect proper capital asset balances;
  - Assets are reasonably protected from theft;
  - Internal procedures are documented in writing; and
  - Proper segregation of duties is maintained.
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## DOA Contact

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### Contact

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## Subject Cross References

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**References**      CAPP Topic No. 30310, *Asset Categorization*

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